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Unemployed and Uninsured

Jobless Workers, Unemployment, Insurance, and the Recession

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Executive Summary

Since its inception, the unemployment insurance system has been considered the nation's "first line of defense" against unemployment, especially during recessions. But today the unemployment insurance system is weaker than during any other recessionary period since the end of World War II.

In 1990, fewer than four in every ten unemployed workers — 37 percent — received unemployment insurance benefits in an average month. This marked the seventh straight year that unemployment insurance protection dropped below 40 percent.

This low level of protection in recent years is unparalleled in the history of the unemployment insurance system. In the 38 years from 1946 to 1983, the percentage of the unemployed receiving unemployment insurance benefits dipped below 40 percent only once — in 1966, when it stood at 39 percent. In many years, the level of protection exceeded 40 percent by a substantial margin.

By contrast, from 1984 to 1989, the share of the unemployed receiving unemployment insurance benefits averaged 33 percent. In five of these six years, the share of the unemployed receiving benefits fell to the lowest levels ever recorded. This trend of record low unemployment insurance protection continued into 1990, a year in which a recession began. The share of the unemployed receiving benefits typically rises during recessions and falls during recoveries.[1]

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[1] For example, the share of the unemployed consisting of people who have been laid off or fired rises during a recession. Since it is these job losers — as distinguished from the unemployed who leave their jobs voluntarily or are new entrants or reentrants into the labor market — that the unemployment insurance is primarily designed to assist, the proportion of the unemployed receiving unemployment benefits normally rises in a recession as well.

Accordingly, the proportion of the unemployed receiving benefits did increase in 1990. The increase, however, was only slight — to 37 percent. This was a lower level of protection than in any year before 1984, and was much lower than during any previous year that included a recessionary period.

Large numbers of workers have suffered income losses — and many face hardship — because of the decline in unemployment protection. If the proportion of jobless workers receiving benefits had been the same in 1990 as it was a decade earlier, more than half a million additional jobless workers would have received benefits in an average month last year.

Little Help for the Long-term Unemployed

The unemployment insurance system includes two basic parts. The first part consists of regular, state-funded benefits that are provided for a maximum of 26 weeks in virtually all states. The second part consists of the federal-state "extended benefits" program. When a state's unemployment insurance receipt rises above a specified level, up to 13 additional weeks of extended benefits are provided to unemployment workers who have exhausted their regular benefits and are still looking for work. Extended benefits are designed to help workers when unemployment is high, and it consequently takes longer to find employment.

In 1990, some 2.3 million unemployment insurance recipients exhausted their benefits. Only a small fraction of these jobless workers were eligible for extended benefits, however. Only two states — Alaska and Rhode Island — qualified to pay extended benefits at any time during 1990. Moreover, these two states were eligible for the extended benefits program only during the first half of 1990, before the national recession began.

State Protection Rates Vary Widely

In part because of the substantial discretion that states have in designing their unemployment insurance programs, unemployment insurance protection varies widely among the states. In 1990, the proportion of jobless workers receiving benefits in an average month ranged from 17 percent in South Dakota to 68 percent in Alaska.

States with low rates of unemployment protection are found in all parts of the country:

- In eight states, fewer than one in four unemployed workers received benefits in an average month in 1990. These states are Florida, Indiana, New Mexico, Oklahoma, South Dakota, Texas, Virginia, and Wyoming.

- In 23 states, fewer than one in three jobless workers received benefits. These included such disparate states as Colorado, Georgia, New Hampshire, Ohio, Utah, and West Virginia.

Some of the most populous states had low protection rates. In Florida, with the third lowest protection, only 21 percent of the jobless received unemployment benefits. In Texas, which tied for the fifth lowest protection level, 23 percent received assistance. In both Illinois and Ohio, 33 percent of the jobless received benefits in an average month.

States in which only a small fraction of the unemployed received benefits also included some states with very weak economies. West Virginia's 8.3 percent unemployment rate was the highest in the nation in 1990. Yet only 26 percent of its unemployed received benefits. Mississippi and Michigan both had an unemployment rate of 7.5 percent — the second highest in the nation. In Mississippi, only 27 percent of the employed received benefits; in Michigan, 35 percent received benefits. None of these three states qualified to provide extended benefits in 1990.

As part of the nationwide trend, the share of the unemployed receiving benefits dropped substantially in many states during the 1980s. This is seen by comparing the proportion of the unemployed in each state receiving benefits in 1990 to the proportion that received benefits in 1979. This comparison *understates* the erosion of unemployment insurance protection. While 1979 was a year of economic growth, 1990 saw the onset of recession. Because unemployment insurance protection generally rises in a recession, one would expect protection levels to be higher in 1990 than in 1979. Yet in all but 14 states, the proportion of jobless workers receiving benefits was *lower* in 1990 than in 1979.

One reason unemployment protection remains low in many states despite the recession is that large numbers of unemployed workers are exhausting their unemployment benefits without being able to find employment. In California alone, more than 300,000 jobless workers ran out of unemployment benefits in 1990 before they found work. More than 200,000 workers in New York exhausted their benefits last year, as did more than 100,000 in Illinois, Massachusetts, Michigan, New Jersey, Pennsylvania, and Texas.

System Ill-Equipped for the Recession

The shortcomings of the unemployment insurance system that were evident in 1990 are likely to become more glaring in 1991. The recession began in the second half of 1990; the highest point that the unemployment rate reached in 1990 came in December, when the rate stood at 6.1 percent. The unemployment rate is expected to be substantially higher throughout both 1991 and 1992, and for much of 1993 as well.

Unemployment has risen rapidly since the recession started; 1.6 million more people were out of work in February 1990 than were jobless eight months earlier. The number of long-term unemployed — those out of work more than 26 weeks and still looking for a job — jumped 40 percent between June 1990 and February 1991.

Unfortunately, high unemployment is likely to persist for some time. Under the Bush Administration's own forecast, the unemployment rate is expected to be nearly as high in 1992 as in 1991. The Administration projects the national unemployment rate will average 6.7 percent in 1991 — and 6.6 percent in 1992. Moreover, under the Administration forecast, the unemployment rate will not return to its level of February 1991 — 6.5 percent — until 1993.

As the recession has continued, the number of unemployed workers who exhaust their unemployment benefits but are still jobless has risen sharply. In January and February 1991, nearly half a million unemployed workers exhausted their benefits. This represented a 30 percent increase over the number of jobless workers exhausting their benefits in January and February 1990.

Most of those who have exhausted their benefits are unlikely to find employment soon after their benefits end. In a recent study conducted for the Labor Department, researcher Walter Corson of Mathematica Policy Research found that 60 percent of workers who had exhausted their unemployment benefits were still jobless 10 weeks after receiving their final unemployment insurance payment. Corson has noted that since his study examined the unemployment insurance program during a *non*recessionary period (1988), the proportion of exhaustees who are unable to find work within a short period after their benefits run out is likely to be higher today.

During the past few months, the problem of unemployed workers exhausting their benefits has eased in five states that qualified for the extended benefits program in the first quarter of 1991. The extended benefits program continues, however, to provide much less assistance than in previous recessions. Substantial cuts were made in the extended benefits program in 1981; if these

changes in the program had not been made — and the pre-1981 rules for the extended benefits program remained in effect — at least eight additional states would be paying extended benefits today.

The consequences of this deterioration in unemployment insurance protection are twofold. First, the program is now providing less of a "countercyclical" stimulus than in previous recessions. Second, unemployed workers and their families are more likely to experience hardship. A number of studies have shown that unemployed people who do not receive unemployment benefits are more likely to be poor than those who do get benefits — and that the decline in unemployment insurance protection has led to higher poverty rates. Indeed, for some previously middle class workers, the deterioration in unemployment protection may mean not only a decline in their standard of living, but also that they sink into poverty.

Federal and State Reforms Needed

While a number of factors led to the record low levels of unemployed workers receiving unemployment insurance benefits, changes in federal and state laws played an important role. Among these changes were the cutbacks in the extended benefits program adopted by Congress in 1981 at the request of the Reagan Administration. In addition, a number of states cut their unemployment insurance programs during the early 1980s, when program costs mounted due to the long stretch of high unemployment. Such states often took actions making eligibility for unemployment insurance more restrictive.

Congress could act to shore up the unemployment insurance system by reforming the system in three basic ways. Congress could overhaul and strengthen the benefit program for the long-term unemployed; it could establish federal standards designed to increase the share of the unemployed receiving benefits under the regular unemployment insurance program; and it could modify the method of financing unemployment insurance administrative costs. Legislation including these and other reforms was introduced in March 1991 by Representative Thomas Downey, chair of the House subcommittee with jurisdiction over unemployment insurance.

Reforms such as these could be financed through modifications in the unemployment insurance tax. That tax is now regressive. Employers pay a tax of 0.8 percent on the first $7,000 of a worker's wages, which means that an employer pays as much into the unemployment insurance system for a worker earning $7,000 a year as for a worker making $50,000 or $100,000. But if such workers

lose their jobs, the worker who earned $7,000 is given a much smaller unemployment benefit than the worker who made $50,000 or $100,000.

The unemployment insurance system did not originally operate in this manner. Initially, both the unemployment insurance tax and the Social Security tax were applied to the same amount of wages. But while the unemployment tax applies today to just the first $7,000 in wages, the Social Security tax applies to the first $53,400. The legislation introduced by Rep. Downey would raise the unemployment insurance "tax base" to the same level as the Social Security tax base, while eventually cutting the unemployment insurance tax rate by nearly two-thirds. This would provide sufficient revenues to finance the various benefit reforms in the bill.

No legislation, however (including that introduced by Rep. Downey), can fully offset the costs *in fiscal year 1991* of providing supplemental unemployment benefits to workers whose regular benefits have run out. Offsetting tax increases or program cuts could not be implemented quickly enough to save sufficient funds to cover the costs of the additional unemployment protection needed during the current fiscal year. Consequently, Congress and the President could consider designating as "emergency legislation" a measure to provide supplemental unemployment benefits for a temporary period while unemployment remains high. This would enable the large surpluses in the unemployment insurance trust fund to be tapped so that more adequate unemployment protection could be provided. Congress and the Bush Administration have already taken such a step to deal with a shortfall that developed this winter in administrative funding for the unemployment insurance program.

In coming years, levels of unemployment insurance protection will also be affected by decisions made at the state level. States could examine their eligibility rules and administration procedures to see if they have grown too strict and if some selected changes might be appropriate, particularly in light of the high unemployment likely to persist for the next few years.

The inadequacies of the unemployment insurance system have become increasingly evident during the recession. Without action to reform the system, large numbers of jobless workers and their families will face hardships both in the months ahead and in subsequent periods when the economy falters.

I. Unemployment Insurance Protection in 1990

In 1990, fewer than four in every ten unemployed workers — 37 percent — received unemployment insurance benefits in an average month. This marked the seventh straight year that unemployment insurance protection dropped below 40 percent. It also marked the lowest protection rate ever recorded for a year that included a recession.

The low level of protection in recent years is unparalleled in the history of the unemployment insurance system. In five of the last seven years, the percentage of the unemployed receiving benefits fell to record low levels. By contrast, in the preceding 38 years from 1946 to 1983, the percentage of the unemployed receiving unemployment insurance benefits dipped below 40 percent only once.

The low level of unemployment insurance protection is particularly troubling during a recession. Since its inception, the unemployment insurance system has been considered the nation's "first line of defense" against unemployment, especially during periods of economic downturn. In important respects, this defense is failing today.

Protection has Eroded

The proportion of unemployed workers who qualify for unemployment insurance benefits typically rises and falls with economic trends. During recessions, the proportion tends to rise for two reasons. First, the share of the unemployed consisting of "job losers" rises during a recession. It is job losers, as distinguished from those who leave their jobs voluntarily or are new entrants or

reentrants into the labor market, that the unemployment insurance system is primarily designed to assist.[2] Second, unemployment insurance benefits are generally made available to the long-term unemployed only during periods of high unemployment.

While the share of the unemployed receiving benefits fluctuates from year to year, it is clear that the level of protection now provided under the unemployment insurance program differs significantly from that provided in earlier decades.[3] (See Figure 1.)

- Prior to 1984, the share of the unemployed receiving unemployment insurance benefits in an average month surpassed 40 percent in every year except 1966, when it stood at 39 percent. In many years, the level of protection exceeded 40 percent by a substantial margin. In 1975, it reached an all-time high of 76 percent.

- By contrast, from 1984 to 1989, the proportion of the unemployed receiving benefits averaged 33 percent.[4] In five of these years, the proportion of the unemployed receiving benefits fell to its lowest level since the end of World War II.

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[2] Since unemployment insurance is primarily intended to cover people who have involuntarily lost their jobs, as opposed to new entrants or re-entrants into the workplace and people who have quit their job or were fired for misconduct, the appropriate target for unemployment insurance coverage is *not* 100 percent of the unemployed population.

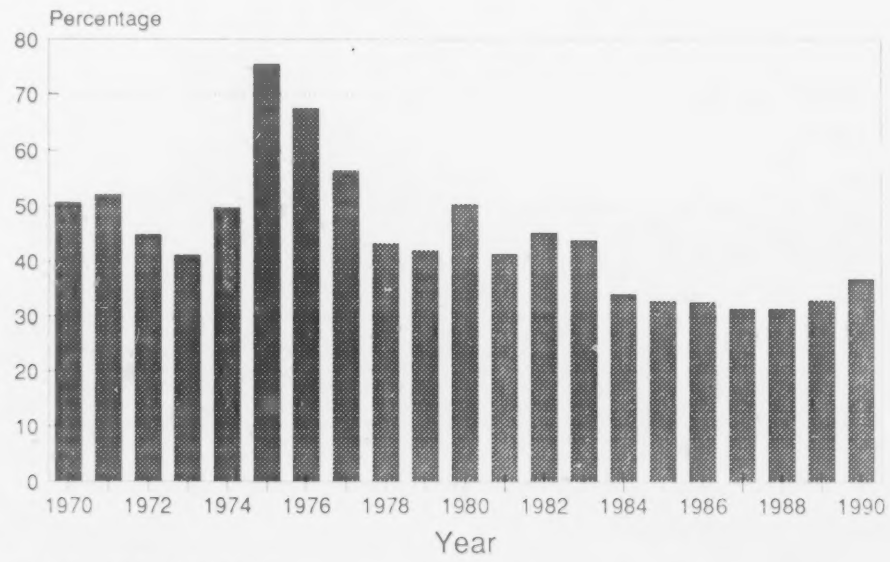
[3] Gary Burtless of the Brookings Institution has compared the share of the unemployed who currently receive state unemployment insurance benefits to the share receiving benefits from 1967 to 1979. Burtless' approach adjusts for changes in the composition of the unemployed over the business cycle. He found that state unemployment insurance protection is now about one-fifth lower than in the past. As noted later in this analysis, Burtless also found that the protection provided by the federal-state extended benefits program for the long-term unemployed has eroded even more sharply. Gary Burtless, Testimony before the Joint Economic Committee, January 4, 1991.

[4] As low as these recipiency rates are for unemployed workers in general, they are even lower for unemployed minority workers. Minority data for 1990 are not yet available, but in 1989, only one in five black unemployed workers — 21 percent — received unemployment benefits in an average month. Among Hispanics, approximately 18 percent of the unemployed received unemployment insurance benefits. In comparison, 41 percent of unemployed non-Hispanic whites received benefits.

The recipiency rates for black and Hispanic unemployed workers are based on several sets of Labor Department data. These data must be treated with caution as reporting was not consistent across the states, and information was not reported for all unemployment insurance recipients in the survey.

Figure 1

Percentage of Unemployed Receiving Unemployment Insurance Benefits



Source: Center on Budget and Policy Priorities and U.S. Department of Labor.

This trend of record low unemployment insurance protection during the recovery years of 1984 to 1989 continued into 1990, a year in which a recession began. As would be expected for a period of rising unemployment, the proportion of the unemployed receiving benefits did increase in 1990.[5] But the increase was only slight, with just 37 percent of the unemployed receiving benefits. This was a level of protection that was lower than in any year before 1984, and much lower than during any previous year that included a recessionary period. (See Table I.)

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[5] The increase in protection was not due to changes in federal policies. These policies were not amended in 1990.

Table 1
Unemployed Workers Receiving Unemployment Insurance
National, 1955-1990

Year	Percentage of Unemployed Workers Receiving Benefits	Number of Unemployed Workers (thousands)	Number of Unemployed Workers Not Receiving Benefits (thousands)	Unemployment Rate
1955	49.1%	2,852	1,453	4.4%
1956	48.1	2,750	1,427	4.1
1957	54.9	2,859	1,288	4.3
1958	60.3	4,602	1,829	6.8
1959	49.7	3,740	1,880	5.5
1960	53.8	3,852	1,781	5.5
1961	63.5	4,714	1,720	6.7
1962	49.8	3,911	1,965	5.5
1963	48.5	4,070	2,097	5.7
1964	46.3	3,786	2,033	5.2
1965	43.1	3,366	1,916	4.5
1966	39.3	2,875	1,746	3.8
1967	42.7	2,975	1,705	3.8
1968	42.1	2,817	1,630	3.6
1969	41.6	2,832	1,655	3.5
1970	50.6	4,093	2,023	4.9
1971	52.0	5,016	2,408	5.9
1972	44.9	4,882	2,690	5.6
1973	41.1	4,365	2,572	4.9
1974	49.6	5,156	2,598	5.6
1975	75.5	7,929	1,943	8.5
1976	67.4	7,406	2,417	7.7
1977	56.3	6,991	3,057	7.1
1978	43.3	6,202	3,517	6.1
1979	42.1	6,137	3,554	5.8
1980	50.4	7,637	3,789	7.1
1981	41.4	8,273	4,846	7.6
1982	45.3	10,678	5,846	9.7
1983	43.9	10,717	6,012	9.6
1984	34.1	8,539	5,630	7.5
1985	32.9	8,312	5,580	7.2
1986	32.7	8,237	5,545	7.0
1987	31.5	7,425	5,089	6.2
1988	31.5	6,701	4,589	5.5
1989	33.0	6,528	4,373	5.3
1990	36.8	6,874	4,342	5.5

Note: Data for the years before 1985 are from historical tables that include Puerto Rico and the Virgin Islands in the tabulation of unemployment insurance beneficiaries, but not in the tabulation of the unemployed. The pre-1985 data thus overstate coverage in these years by an estimated one-half to percentage point. None of the data for 1985 through 1990 includes beneficiaries for Puerto Rico and the Virgin Islands.

Source: U.S. Department of Labor, *Employment and Earnings*, and data computed by the Center on Budget and Policy Priorities from U.S. Department of Labor weekly "Unemployment Insurance Claims" reports.

Indeed, a comparison of unemployment insurance protection in 1990 to that provided a decade ago suggests large numbers of workers have suffered income losses because of the decline in protection. *More than half a million* additional jobless workers went without benefits in an average month in 1990 due to the decrease in the share of the unemployed receiving unemployment insurance benefits over the past decade.[6]

Very Few Receive Extended Benefits

The unemployment insurance system includes two basic parts. The first part consists of regular, state-funded UI benefits that are provided for a maximum of 26 weeks in virtually all states. The second part consists of the federal-state "extended benefits" program. When a state's level of unemployment insurance receipt rises above a specified threshold, up to 13 additional weeks of "extended" UI benefits are provided to unemployed workers in the state who have exhausted their 26 weeks of regular benefits and are still looking for a job.[7] The concept behind the extended benefits program is that when unemployment is high, it usually takes longer to find a new job — and many workers may consequently remain without employment for a longer period of time due to no fault of their own.

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[6] This estimate was made by comparing unemployment insurance protection in 1990 to protection in 1979 and 1980. If the percentage of the unemployed receiving unemployment insurance were the same in 1990 as in 1979, about 360,000 additional workers would have received benefits in an average month in 1990. This estimate understates the effects of the change in protection. Since 1979 was the final year of an economic recovery, one would expect that protection would be somewhat lower in that year than in 1990, a year in which a recession began.

If the percentage of the unemployed receiving benefits were the same in 1990 as in 1980, then 930,000 additional workers would have received benefits in an average month in 1990. This estimate overstates the effects of the change in protection. Since the economy turned down more sharply in 1980 than it did in 1990, one would expect the share of the unemployed receiving benefits to be somewhat higher in 1980 than it was last year.

The likely effect of the change in UI protection thus lies somewhere between the effects estimated when 1990 is compared to 1979 and when 1990 is compared to 1980.

[7] The factor (or "trigger") used to determine when a state may provide extended benefits to its long-term unemployed is the "insured" unemployment rate, rather than the regular or "total" unemployment rate usually reported in the media. The insured rate is computed by dividing the number of persons collecting state unemployment benefits by the total number of persons in the state in jobs covered by the unemployment insurance system. (Almost all wage and salary jobs are covered by the UI system.)

In recent years, the gap between the regular unemployment rate and the insured unemployment rate has widened, making it more difficult for states to qualify for extended unemployment benefits.

As the nation fell into recession in 1990, the need for extended benefits began to grow. In recent months, there has been a surge in the number of jobless workers who have exhausted their state unemployment insurance benefits and are potentially in need of extended benefits.

- From 1989 to 1990, the number of state benefit exhaustees increased 19 percent.

- Some 2.3 million state UI recipients exhausted their benefits in 1990.

Only a tiny fraction of unemployed workers who exhausted their state benefits in 1990, however, were eligible to receive extended benefits. Large cutbacks in this program in the early 1980s greatly restricted the scope of the extended benefits program. (These cutbacks were made as part of the budget reductions requested by the Reagan Administration and passed by Congress in 1981.)

Throughout 1990, only two states with very small populations — Alaska and Rhode Island — were ever eligible for the extended benefits program. Moreover, these states were eligible for the program only during the *first half* of 1990, before the national recession began.

The situation had become more troubling by December 1990, several months into the recession. West Virginia had an unemployment rate of 9.5 percent that month, while Mississippi had a rate of 8.0 percent. Four additional states — Alaska, Arkansas, Massachusetts, and Michigan — had unemployment rates exceeding seven percent, and 18 more states had unemployment rates exceeding six percent. In addition, 190,000 individuals exhausted their state unemployment insurance benefits during the final month of 1990. This reflected a 26 percent jump in exhaustees compared to December 1989.

Nevertheless, in December, not a single state qualified for the extended benefits program. Although a few states have qualified for the program in the first part of 1991, a matter that is discussed in Chapter III, the larger point remains: Since the end of World War II, the nation's unemployment insurance system has never been weaker entering into a recession.

II. State Unemployment Insurance Protection Varies Widely

Unemployment insurance protection varies widely among the states. In 1990, the proportion of jobless workers receiving benefits in an average month ranged from 17 percent in South Dakota to 68 percent in Alaska.

Nevertheless, protection is quite low in most states. In only eight states did more than half of the unemployed receive benefits in an average month in 1990. In 23 states, fewer than one-third of the unemployed received benefits.

The state variations in unemployment protection stem both from differences in state economies and workforces and from significant disparities in state unemployment insurance programs. Some state programs are highly restrictive.

State Protection Rates

States with low rates of unemployment protection are spread throughout the country.[8]

- In eight states, the proportion of the unemployed receiving benefits in 1990 fell *below one-fourth*. These states were Florida, Indiana, New Mexico, Oklahoma, South Dakota, Texas, Virginia, and Wyoming.

[8] Levels of unemployment protection do tend to be lower than average in the South and Southwest and higher than average in the Northeast and along the West Coast.

- States in which fewer than *one-third* of the unemployed received benefits also included such disparate states as Colorado, Georgia, New Hampshire, Ohio, Utah, and West Virginia. (See Table II.)

Among the states with low protection rates were several of the nation's more populous states. In these states, the numbers of unemployed workers going without benefits were especially large.

- In Florida, where only 21 percent of unemployed workers received unemployment benefits — the third lowest level of protection in the nation — some 300,000 jobless workers went without benefits in an average month in 1990.

- In Texas, which tied for the fifth lowest level of protection of any state, 23 percent of the unemployed received benefits. Approximately 400,000 unemployed people lacked benefits in an average month.

- In Illinois, where 33 percent of the jobless received benefits, approximately 250,000 unemployed workers went without benefits in an average month. In Ohio, where the proportion receiving benefits was the same as in Illinois, more than 200,000 jobless people failed to receive benefits.

In other states with low protection rates, the numbers and proportions of jobless workers lacking benefits were also high.

- In Virginia, only 20 percent of the unemployed received benefits in an average month, the second lowest rate in the nation. Four of every five jobless Virginia workers — or 109,000 — went without benefits in an average month.

- In Oklahoma, with the fourth lowest level of protection of any state, just 22 percent received benefits. This left 67,000 unemployed workers without benefits in an average month.

- Indiana tied for the fifth lowest protection rate. Some 23 percent received benefits; 77 percent, or 116,000 jobless workers, did not.

Some of the states with low levels of unemployment protection were states with very weak economies. In these states, unemployment rates were high, and unemployed workers were likely to have greater difficulty in finding a job. Nevertheless, for jobless individuals who could not locate work, unemployment insurance often was not available. (See Table III for levels of unemployment insurance protection and unemployment rates for all states.)

Table II
States in Which Fewer Than One in Three Unemployed Workers
Received Unemployment Insurance Benefits
In an Average Month in 1990

State	Percentage of Unemployed Workers Workers Receiving Benefits
Alabama	28.3%
Arizona	28.6
Colorado	26.5
Delaware	27.4
Florida	20.6
Georgia	26.7
Illinois	33.1
Indiana	22.8
Kentucky	29.7
Louisiana	25.2
Maryland	32.2
Mississippi	26.5
New Hampshire	31.1
New Mexico	24.9
Ohio	33.1
Oklahoma	21.6
South Carolina	32.4
South Dakota	16.8
Texas	22.8
Utah	26.5
Virginia	20.4
West Virginia	26.4
Wyoming	24.6

Source: Calculations by the Center on Budget and Policy Priorities based on U.S. Department of Labor data.

- West Virginia had the nation's highest unemployment rate last year — 8.3 percent. Yet West Virginia also had the 10th lowest level of unemployment protection, with only 26 percent of the jobless receiving benefits in an average month.

- Mississippi's unemployment rate of 7.5 percent tied for second highest in the nation. However, only 27 percent of its employed received benefits.

- In Michigan, which also had an average unemployment rate of 7.5 percent, the level of unemployment insurance protection was higher than in Mississippi, but below the average for the nation as a whole. Some 35 percent of Michigan's unemployed received benefits. The other 65 percent did not.

Table III
Unemployment and Unemployment Insurance Protection by State, 1990

State	Percentage of Unemployed Receiving Benefits	State Rank from Lowest to Highest	Number of Unemployed Not Receiving Benefits	Unemployment Rate in 1990
Alabama	28.3%	16	91,700	6.8%
Alaska	68.1	51	5,700	6.9
Arizona	28.6	17	65,700	5.3
Arkansas	34.3	26	51,200	6.9
California	47.0	41	435,900	5.6
Colorado	26.5	11	63,900	4.9
Connecticut	50.0	44	45,500	5.1
Delaware	27.4	15	13,800	5.1
District of Columbia	44.4	39	11,100	6.6
Florida	20.6	3	300,300	5.9
Georgia	26.7	14	128,200	5.4
Hawaii	37.4	32	9,400	2.8
Idaho	40.6	35	17,200	5.8
Illinois	33.1	22	248,300	6.2
Indiana	22.8	5	115,800	5.3
Iowa	33.8	25	41,700	4.2
Kansas	34.4	27	37,400	4.4
Kentucky	29.7	18	72,400	5.8
Louisiana	25.2	9	87,500	6.2
Maine	52.5	47	15,700	5.1
Maryland	32.2	20	80,000	4.6
Massachusetts	59.6	50	76,400	6.0
Michigan	35.3	29	222,700	7.5
Minnesota	36.7	31	73,400	4.8
Mississippi	26.5	11	64,600	7.5
Missouri	35.3	29	97,700	5.7
Montana	34.6	28	15,000	5.8
Nebraska	40.8	36	10,600	2.2
Nevada	38.5	33	19,100	4.9
New Hampshire	31.1	19	24,800	5.6
New Jersey	51.8	46	97,300	5.0
New Mexico	24.9	8	33,000	6.3
New York	48.6	43	231,700	5.2
North Carolina	39.6	34	84,000	4.1
North Dakota	33.6	24	8,600	3.9
Ohio	33.1	22	205,400	5.7
Oklahoma	21.6	4	67,500	5.6
Oregon	46.5	40	43,900	5.5
Pennsylvania	48.2	42	164,700	5.4
Rhode Island	58.8	49	14,400	6.7
South Carolina	32.4	21	54,700	4.7
South Dakota	16.8	1	10,800	3.7
Tennessee	41.2	37	73,400	5.2
Texas	22.8	5	402,300	6.2
Utah	26.5	11	25,000	4.3
Vermont	53.2	48	7,000	5.0
Virginia	20.4	2	109,000	4.3
Washington	51.3	45	59,400	4.9
West Virginia	26.4	10	47,100	8.3
Wisconsin	44.3	38	62,900	4.4
Wyoming	24.6	7	9,800	5.4

Source: Calculations by the Center on Budget and Policy Priorities based on U.S. Department of Labor data.

States with low levels of unemployment protection include both states with large rural populations and states in which most of the population lives in urban areas. Mississippi, South Dakota, West Virginia, and Wyoming are examples of rural states with low protection rates.[9] In each of these states, between 17 percent and 27 percent of the unemployed received benefits in an average month last year.

Urban states with low protection rates include Florida, where only one-fifth of the unemployed received benefits, and Maryland, where 32 percent of the jobless did. Illinois and Ohio, where 33 percent received benefits, are two additional examples of urban states with low levels of protection.[10] Nevertheless, there was a marked distinction between rural and urban states. In general, rural states were more likely to have very low rates of unemployment protection than urban states were. (See box on next page.)

Even in most states with well above-average levels of protection — such as California, New York, and Pennsylvania — fewer than half of the unemployed received benefits.

Decline in Unemployment Protection in the 1980s

In most states, unemployment protection fell sharply in the 1980s. One way to measure this decline is to compare the portion of unemployed workers receiving benefits in 1990 to the portion receiving benefits in 1979.

This comparison significantly *understates* the decline in unemployment protection. While 1979 was a year of economic growth, 1990 saw the onset of recession. Because unemployment insurance protection generally rises in a recession, one would expect protection levels to be higher in 1990 than in 1979. Yet in all but 14 states, the proportion of jobless workers receiving benefits was *lower* in 1990 than in 1979. In some states, the decline in unemployment protection was quite severe. In 13 states, the proportion of unemployed workers receiving benefits fell more than 10 percentage points. (See Table IV.)

For example, in West Virginia, which registered the steepest decline, unemployment insurance protection fell by 22 percentage points. In 1979, some 48 percent of the state's jobless workers received benefits; in 1990, 26 percent did. In Illinois, an average of 48 percent of jobless workers received benefits in 1979, while 33 percent did in 1990.

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[9] In 1988, approximately 70 percent of Mississippi's population lived in rural areas, as did 71 percent of South Dakota's population, 64 percent of West Virginia's, and 71 percent of Wyoming's.

[10] In 1988, approximately 91 percent of Florida's population lived in urban areas, as did 93 percent of Maryland's population, 83 percent of Illinois', and 79 percent of Ohio's.

Unemployment Protection Weaker In Rural States

Unemployment insurance protection is low across the nation and in a number of urban and rural states alike. The program appears much more restrictive, however, in highly rural states than in highly urban jurisdictions.

This can be seen by comparing levels of unemployment protection in the 10 most urban and 10 most rural states. The most urban states are the states with the highest proportions of their populations residing in metropolitan areas. (The 10 most urban states are California, Connecticut, the District of Columbia, Florida, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, and Rhode Island.) The most rural states are the states in which the highest proportions of the population live outside metropolitan areas. (This group of states includes Arkansas, Idaho, Maine, Mississippi, Montana, North Dakota, South Dakota, Vermont, West Virginia, and Wyoming.)

- Among the 10 most rural states, the median level of unemployment protection in 1990 was 34 percent (i.e., in the median state in this group, 34 percent of the unemployed received benefits in an average month in 1990).
- By contrast, among the 10 most urban states, the median level of unemployment protection was 48 percent.
- Six of the 10 most urban states ranked among the 10 states in the nation with the highest levels of unemployment insurance protection. And eight of the 10 most urban states were among the 13 states with the highest protection levels.
- But only two of the 10 most rural states were among the 10 states with the highest protection levels, while three of the most rural states were among the 10 states with the lowest levels of unemployment protection.

Overall, there were seven states — Illinois, Michigan, Missouri, Montana, North Dakota, Utah, and West Virginia — where the proportion of the unemployed receiving benefits declined 15 percentage points or more from 1979 to 1990. In six states, the unemployment protection rate fell between 10 and 15 percentage points. These states are Alaska, Kentucky, New Jersey, Oklahoma, Rhode Island, and South Dakota.

Moreover, since comparing protection in 1990 to that in 1979 understates the true decline in assistance, the story in other states is worse than Table IV suggests. For example, the 1979 to 1990 comparison suggests that protection increased in states such as Massachusetts, New York, and North Carolina. A study conducted for the Labor Department that covered a much wider range of years, however, found that protection under the regular unemployment insurance program *decreased* in these states during the 1980s.[11]

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[11] Walter Corson and Walter Nicholson, *An Examination of Declining UI Claims During the 1980s*, prepared by Mathematica Policy Research, Inc. for the U.S. Department of Labor. This study compared the average protection provided under the regular unemployment insurance program from 1980 to 1986 to the average protection provided from 1971 to 1979. It found that 35 states registered a statistically valid decrease in protection in the 1980s, while only four states registered a statistically valid increase.

Table IV
Unemployment Insurance Protection by State, 1979 and 1990

State	Percentage of Unemployed Workers Receiving Benefits, 1979	Percentage of Unemployed Workers Receiving Benefits, 1990	Percentage Point Change 1979 to 1990
Alabama	37.1%	28.3%	- 8.8
Alaska	79.7	68.1	-11.6
Arizona	25.4	28.6	+ 3.2
Arkansas	41.8	34.3	- 7.5
California	43.0	47.0	+ 4.0
Colorado	24.6	26.5	+ 1.9
Connecticut	39.5	50.0	+10.5
Delaware	28.7	27.4	- 1.3
District of Columbia	44.6	44.4	- 0.2
Florida	23.7	20.6	- 3.1
Georgia	32.4	26.7	- 5.7
Hawaii	40.1	37.4	- 2.7
Idaho	49.7	40.6	- 9.1
Illinois	48.1	33.1	-15.0
Indiana	27.6	22.8	- 4.8
Iowa	37.7	33.8	- 3.9
Kansas	36.3	34.4	- 1.9
Kentucky	44.5	29.7	-14.8
Louisiana	29.0	25.2	- 3.8
Maine	44.0	52.5	+ 8.5
Maryland	28.4	32.2	+ 3.8
Massachusetts	48.5	59.6	+11.1
Michigan	52.9	35.3	-17.6
Minnesota	39.2	36.7	- 2.5
Mississippi	34.0	26.5	- 7.5
Missouri	51.7	35.3	-16.4
Montana	49.6	34.6	-15.0
Nebraska	30.6	40.8	+10.2
Nevada	41.0	38.5	- 2.5
New Hampshire	33.0	31.1	- 1.9
New Jersey	62.7	51.8	-10.9
New Mexico	24.2	24.9	+ 0.7
New York	45.0	48.6	+ 3.6
North Carolina	29.5	39.6	+10.1
North Dakota	51.9	33.6	-18.3
Ohio	40.0	33.1	- 6.9
Oklahoma	32.0	21.6	-10.4
Oregon	41.4	46.5	+ 5.1
Pennsylvania	52.3	48.2	- 4.1
Rhode Island	71.1	58.8	-12.3
South Carolina	35.3	32.4	- 2.9
South Dakota	30.4	16.8	-13.6
Tennessee	45.3	41.2	- 4.1
Texas	24.0	22.8	- 1.2
Utah	43.8	26.5	-17.3
Vermont	53.0	53.2	+ 0.2
Virginia	23.7	20.4	- 3.3
Washington	35.3	51.3	+16.0
West Virginia	48.8	26.4	-22.4
Wisconsin	52.2	44.3	- 7.9
Wyoming	26.9	24.6	- 2.3
U.S. Total	42.1	36.8	- 5.3

Note: As explained in the text, comparing 1979 to 1990 understates the decline in unemployment protection.

Source: Calculations by the Center on Budget and Policy Priorities based on U.S. Department of Labor data.

Benefit Exhaustees in 1990

One reason that levels of unemployment protection remain low in most states despite the recession is that large numbers of jobless workers are exhausting their unemployment benefits without being able to find employment. Nationwide, 2.3 million jobless workers exhausted their regular unemployment insurance benefits in 1990. Nearly all of these exhaustees were ineligible for continued assistance under the federal-state extended benefits program. Only two states, Alaska and Rhode Island, qualified for the extended benefits program in 1990 — and then only during the first half of the year

More than half of these exhaustees lived in eight states: California, Illinois, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, and Texas. In California alone, 330,000 jobless workers ran out of unemployment benefits last year before they found a job. There were more than 215,000 exhaustees in New York and at least 100,000 each in Illinois, Massachusetts, Michigan, New Jersey, Pennsylvania, and Texas. The number of jobless workers in each state who exhausted their benefits during 1990 is shown in Table V.

Factors Contributing to State Variations in Unemployment Protection

A number of factors contribute to the wide variation among states in the proportion of unemployed workers receiving unemployment benefits. These factors include differences in state economies, such as variations in employment patterns, job opportunities, seasonal work, unionization, and the demographics of the work force. Differences in the portion of unemployed workers who apply for benefits also appear to play a role.[12]

But one of the major factors is neither economic nor demographic. It is the disparities among states in unemployment insurance laws and administrative practices.

States set most of the standards that determine eligibility for unemployment benefits, benefit amounts, and the potential duration of benefits (except for the duration of benefits under the federal-state extended benefits program). States also

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[12] Recent research by Rebecca Blank and David Card indicates that the portion of eligible workers who apply for unemployment insurance varies among states. Blank and Card also found that, on a national basis, the share of eligible unemployed workers applying for benefits fell significantly in the 1980s. Rebecca M. Blank and David E. Card, "Recent Trends in Insured and Uninsured Unemployment: Is There an Explanation?" National Bureau of Economic Research Working Paper No. 2871, 1989.

Table V
Jobless Workers Who Exhausted Unemployment Benefits by State, 1990

State	Number of Jobless Workers Who Exhausted Unemployment Benefits
Alabama	28,100
Alaska	17,700
Arizona	22,200
Arkansas	21,000
California	332,000
Colorado	25,000
Connecticut	41,900
Delaware	2,500
District of Columbia	10,900
Florida	88,600
Georgia	51,700
Hawaii	3,500
Idaho	9,800
Illinois	111,200
Indiana	27,000
Iowa	16,600
Kansas	19,800
Kentucky	21,900
Louisiana	23,300
Maine	15,800
Maryland	26,300
Massachusetts	115,100
Michigan	125,600
Minnesota	39,900
Mississippi	18,900
Missouri	48,100
Montana	7,400
Nebraska	6,900
Nevada	10,800
New Hampshire	4,200
New Jersey	120,500
New Mexico	9,000
New York	216,700
North Carolina	32,700
North Dakota	5,500
Ohio	73,600
Oklahoma	17,000
Oregon	26,500
Pennsylvania	108,400
Rhode Island	19,800
South Carolina	19,300
South Dakota	900
Tennessee	51,000
Texas	139,800
Utah	8,500
Vermont	4,400
Virginia	21,800
Washington	44,000
West Virginia	10,900
Wisconsin	40,200
Wyoming	2,500
U.S. Total	2,266,400

Source: U.S. Department of Labor

make judgments on when applicants or current beneficiaries are ineligible because they have voluntarily qu a job, been discharged for misconduct, or failed to look hard enough for work.

Two areas in which state unemployment programs differ widely appear to be particularly significant contributors to variations in state unemployment protection. These are: state rules governing the number of weeks for which unemployed workers may receive benefits; and state administrative practices that disqualify applicants for having left a job voluntarily or been fired for misconduct.

Duration of Benefits

State rules governing the duration of benefits materially affect the level of protection a state provides its unemployed workers. In all but two states, benefits are available for up to 26 weeks.[13] But in most states, this 26-week period is a *maximum*, with many jobless workers qualifying for benefits for a shorter period of time.

In only eight states do *all* beneficiaries receive benefits for 6 weeks, so long as they continue to look for work during this period.[14] In the other states and the District of Columbia, the duration of benefits for each unemployed worker depends on the worker's earnings during a "base period." In most states, the base period is the first four of the last five completed calendar quarters before the worker filed for unemployment benefits. For a worker who lost his or her job and filed for benefits on March 1, 1991, the base period would thus be October 1, 1989 to September 30, 1990.

In most states, the formula for calculating the duration of a worker's benefits is based on a percentage of the worker's earnings during the base period. In a smaller number of states, the formula is based on the number of weeks the worker was employed during the base period, rather than on the amount earned.

In some states, these formulas are highly restrictive. In Texas, for example — a state where only 23 percent of the unemployed received benefits in an average month in 1990 — unemployment benefits terminate once they equal 27 percent of the worker's earnings in the base year. By contrast, most states allow unemployment benefits to equal a higher percentage of base-year earnings before

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[13] In Massachusetts and Washington, benefits are available for up to 30 weeks.

[14] These eight states are Connecticut, Hawaii, Illinois, Maryland, New Hampshire, New York, Vermont, and West Virginia.

the benefits terminate. In California, benefits terminate only after they reach 50 percent of earnings during the base year.

The difference in these provisions can be very significant for low-wage workers. Take, for example, the case of an unemployed worker who worked 40 hours a week at a wage of $4.25 an hour for 20 consecutive weeks during the base year, earning a total of $3,400. In Texas, this worker would be eligible for an unemployment benefit of $89 a week *for only 10 weeks*, plus a $28 residual benefit in the 11th week. In California, this same unemployed worker would receive a benefit of $82 *for 20 weeks* plus a $60 residual benefit in the following week. (In both states, this worker would qualify for 26 weeks of benefits if he or she had worked full time year round in the base year).

Another example of a restrictive state rule can be found in Florida, the state with the nation's third lowest rate of unemployment protection. In Florida, unemployed workers are eligible for benefits for no more than half the number of weeks they worked in the base year. If an unemployed $4.25-an-hour worker had worked full time for 20 weeks in the base year, he or she could receive a benefit of $85 for 10 weeks. Only if he or she had worked all 52 weeks in the base year would the worker be eligible to receive unemployment benefits for the full 26 weeks. Thus all workers in Florida who were employed for less than 52 weeks during the base year are ineligible to receive benefits for the full 26-week duration. (Table VI shows the substantial variation among states in the number of weeks that benefits are provided to low-wage workers who were employed for part of the base year.)

Adding to the restrictiveness of these provisions is the fact that in most states, the base period does not include the calendar quarter in which the worker files for unemployment benefits or the quarter before that. As noted above, for a worker filing for benefits in March 1991, the base year would usually be October 1989 through September 1990. Work during the five months from October 1990 through February 1991 would not matter. This severely restricts both benefit duration and benefit levels for those low wage workers whose work experience is concentrated in recent months. For some of those workers, this rule may preclude them from receiving benefits altogether.

Administrative Practices

Just as state unemployment insurance laws and regulations vary widely, so do their administrative practices. This conclusion emerges from a 1988 study conducted by Mathematica Policy Research under contract with the U.S.

Table VI
Duration and Weekly Benefit Amount for Jobless Workers
Who Worked Full Time for 20 Weeks
During the Base Year and Earned $4.25 an Hour

State	Maximum Benefit Duration (Weeks)	Weekly Benefit Amount
Arizona	12*	$88
California	20*	82
Colorado	14*	78
Florida	10	85
Illinois**	26	64
New Jersey**	15	102
New Mexico	24	85
New York	26	85
Texas	10*	89

* A small residual benefit is payable in the ensuing week if the unemployment insurance claimant is otherwise eligible.

** Benefit levels shown for Illinois and New Jersey exclude dependent allowances.

Source: Calculations by the Center on Budget and Policy Priorities based on information from the U.S. Department of Labor, *Comparison of State Unemployment Insurance Laws* (January 1991).

Department of Labor.[15] The study examined the decline in recent years in the percentage of jobless workers receiving unemployment benefits in 11 large states. These states include California, Florida, Illinois, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Texas.

As part of the study, Mathematica researchers collected data on the rates at which states denied unemployment insurance claims under certain disqualification provisions. These included disqualifications for voluntarily quitting a job and misconduct discharges. (The denial rate reflects the percentage of new claims that were denied for these reasons.) Although the data in the study are for 1980 through 1986 and not for more recent years, they provide insights into how states compare to one another in the administration of these disqualification provisions.

The Mathematica study found that the nationwide denial rate for voluntary-quit and misconduct discharges averaged 8.3 percent. Michigan and New Jersey had combined denial rates about equal to the national average. Illinois' denial rate for the two disqualification categories was one percentage point above

[15] Walter Corson and Walter Nicholson, *An Examination of Declining UI Claims During the 1980s*, prepared by Mathematica Policy Research, Inc. for the U.S. Department of Labor, 1988.

average. California, Massachusetts, New York, North Carolina, Ohio, and Pennsylvania had below-average denial rates.

By contrast, Texas and Florida had much higher denial rates. Texas' denial rate for the two categories of disqualification was 20.6 percent, *two and a half times* the national average. Florida's denial rate of 17.6 percent was the second highest among the 11 states studied and was more than double the national average. (See Table VII.)

In other words, eight of every 100 unemployment insurance applicants nationwide were denied benefits because they were categorized as having quit their jobs voluntarily or having been fired for misconduct, but 21 of every 100 applicants in Texas — and 18 of every 100 in Florida — were denied benefits for these reasons.

Table VII
Denial Rates for Voluntary-Quit and Misconduct Discharges

State	Denial Rates, 1980-1986	Percentage of Unemployed Workers Receiving Benefits, 1990
California	7.3%	47.0%
Florida	17.6	20.6
Illinois	9.3	33.1
Massachusetts	5.1	59.6
Michigan	8.2	35.3
New Jersey	8.4	51.8
New York	5.7	48.6
North Carolina	4.5	39.6
Ohio	7.4	33.1
Pennsylvania	3.5	48.2
Texas	20.6	22.8
U.S. Total	8.3	36.8

Source: Data computed by the Center on Budget and Policy Priorities from the Mathematica study, *An Examination of Declining UI Claims During the 1980s*; and data computed by the Center from the U.S. Department of Labor weekly "Unemployment Insurance Claims" reports.

It is noteworthy that of the 11 states covered by the study, the five in which the level of unemployment protection was at or above 40 percent in 1990 all had a combined denial rate for these two factors at or below the national average, while the two states in which unemployment protection was below 25 percent in 1990 — Texas and Florida — both had denial rates more than twice the national average. It is highly unlikely this simply reflects differences in the causes of unemployment in Florida and Texas compared to the other states — and not differences in state administration of the unemployment insurance program. The Mathematica study concluded that program administration was unusually stringent in Texas and Florida. Officials in these states may be more prone to make judgments that an applicant or beneficiary has left a job voluntarily or been fired for misconduct.

III. System III-Equipped for the Recession

The shortcomings of the unemployment insurance system that were evident in 1990 are likely to become still more glaring in 1991. The recession began in the second half of 1990, and the unemployment rate hit its yearly high in December, when it equaled 6.1 percent. That rate is likely to be exceeded by a substantial margin throughout both 1991 and 1992, and for much of 1993 as well.

Unemployment Problems Likely to Persist

Unemployment has risen at a fairly rapid pace during the recession. Since June 1990, the unemployment rate has jumped 1.4 percentage points, climbing from 5.1 percent that month to a 6.5 percent level in February 1991.[16] The number

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[16] One reason the unemployment rate and the number of unemployed workers have not risen even more during the recession is that labor force growth has been stagnant. As Janet Norwood, Commissioner of the Bureau of the Labor Statistics, noted in testimony to the Joint Economic Committee on February 1, 1991: "There has been less upward pressure on the unemployment rate so far during this recession than in past downturns because we have had so little labor force growth....Since June, we have had no net labor force growth, and there has been hardly any over the past year."

The labor force consists of all people who are either working or looking for work. If fewer people are entering the workforce, the gap between the number of jobs openings and the number of people seeking work is smaller — and the unemployment rate is lower — than if there were a larger number of people entering the workforce and looking for employment.

In fact, if the labor force had grown at the same pace during the past year as in immediately preceding years (and the same number of people held jobs), the unemployment rate today would be higher than seven percent.

Table VIII
Effects of Recession on Unemployment

	June 1990	February 1991	Percentage Increase
Total unemployed	6,560,000	8,158,000	+24%
Long-term unemployed	659,000	921,000	+40%

Center on Budget and Policy Priorities
Source: Data from U.S. Department of Labor

of unemployed increased by *1.6 million* people during this eight-month period. In February, the unemployment rate reached its highest level in nearly four years.

The number of long-term unemployed individuals — those out of work more than 26 weeks and still looking for a job — has increased even more sharply. Between June 1990 and February 1991, the number of long-term unemployed workers rose 40 percent, a dramatic increase for such a short period.

Some forecasters are predicting the recession will be "moderate" and will end by mid-1991. Even if these forecasts are borne out, unemployment is likely to remain at elevated levels for a considerable period of time and to affect millions of U.S. workers and their families for several more years.

The point at which a recession is said to "end" is the point when the economy hits bottom, stops contracting, and starts to grow again. Normally, this is when unemployment is highest. It can then take several years before unemployment returns to pre-recession levels.

The Bush Administration's economic forecast, which predicts the recession will be moderate and end by mid-year, itself projects an extended period of high unemployment.

- Under the Administration's forecast, the average unemployment rate in 1991 is expected to be 6.7 percent, or 1.2 percentage points higher than its 5.5 percent level in 1990. Each additional percentage point of unemployment means about 1.25 million more people are without work in an average month.

- The Administration projects that in 1992, the unemployment rate will be 6.6 percent, just one-tenth of a percentage point below the projected 1991 level.

- Moreover, under the Administration's forecast, the unemployment rate will not return to its level of February 1991 — 6.5 percent — until 1993.

Furthermore, the problem of *long-term* unemployment is likely to continue worsening for a period of time after the recession ends. Labor Department officials have noted that during the last recession, long-term unemployment did not peak until six months after the recession ended.[17] If this pattern repeats itself, long-term unemployment will continue to rise for close to another year even if the recession proves to be moderate and ends in mid-summer.

Especially High Unemployment in Some States

The recession has hit some states especially hard, with unemployment rates in some areas already rising to the double-digit level. Monthly unemployment data for February are not yet available for all 50 states, but are available for the 11 largest states. The data show:

- In Michigan, the unemployment rate rose to 9.8 percent in February, more than three percentage points above the national average. Unemployment was nearly as prevalent in Massachusetts, where the rate stood at 9.3 percent.

- Three more of the nation's largest states — California, Florida, and Ohio — also had unemployment rates of seven percent or more.

Extended Benefits and the Recession

As noted in Chapter I, no state in the nation qualified to pay extended benefits to its long-term unemployed at any point during the last half of 1990, even though long-term unemployment rose sharply during that period. As the recession continued into 1991, a few states became eligible to provide extended benefits. Alaska and Rhode Island (the only two states that had qualified for the program at any point from 1988 to 1990) were the first two states to qualify for

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[17] John E. Bregger, Assistant Commissioner for Current Employment Analysis, Bureau of Labor Statistics, U.S. Department of Labor, Testimony before the Subcommittee on Human Resources of the Committee on Ways and Means, February 6, 1991.

the extended benefits program in 1991. Maine, Michigan and Vermont also recently qualified. Still, the extended benefits program is providing far less assistance than in past recessions.

If the extended benefit rules that were in effect before enactment of the 1981 budget cuts were still in effect today, at least eight more states would qualify now for the extended benefits program.[18] Long-term unemployed workers in California, Connecticut, Idaho, Massachusetts, New Jersey, Oregon, Pennsylvania, and West Virginia would be receiving extended benefits. While the Labor Department does project that some of these states will soon qualify for the program, still other states will never become eligible, at any point in the recession, because of the changes made in the law in 1981.

In addition, under the pre-1981 law, the five states in which jobless workers can now receive extended benefits would have qualified for these benefits earlier in the recession. And the point at which these states will cease being eligible to pay extended benefits will come sooner than it would have under the old law.

As Brookings Institution expert Gary Burtless recently noted in Congressional testimony: "the effectiveness of the extended benefit program has been cut at least in half" since 1981.[19] Wayne Vroman of the Urban Institute, another leading expert on unemployment insurance, has estimated the unemployment rate would need to reach about 15 percent in some states (Florida, South Dakota, Texas and Virginia) before these states could qualify to pay extended benefits.[20]

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[18] This is a conservative estimate of the effects of changes in federal and state laws on declining extended benefits protection. It takes into account only the direct effects of certain changes enacted in 1981 in the federal extended benefits "trigger" that states must reach for the state to qualify for the extended benefits program.

The estimate does not account for the overall decline during the 1980s in the proportion of the unemployed receiving *regular* unemployment benefits. The number of people receiving regular UI benefits in a state helps determine its extended benefits trigger; the decline in regular UI protection in the typical state has also made it more difficult for a state to qualify for the extended benefits program.

The declining share of the unemployed receiving regular UI benefits has been attributed to a number of factors, including changes in federal and state policies.

[19] Gary Burtless, Testimony before the Subcommittee on Human Resources of the House Ways and Means Committee, February 6, 1991. Burtless reported that the sharp contraction of the extended benefits program is due both to the legislative changes enacted in 1981 and to the inadequacy of the measure used to determine when a state qualifies for extended benefits.

[20] Wayne Vroman, Testimony before the Joint Economic Committee, January 4, 1991. Unemployed workers who do not receive regular unemployment benefits are not counted in the "trigger" used to determine a state's eligibility for the extended benefits program. As a result, in states with especially low unemployment insurance protection, unemployment has to reach extraordinarily high levels before the state can qualify to provided extended benefits.

As the problem of long-term unemployment has continued to worsen during 1991, the number of unemployment insurance beneficiaries who exhaust their unemployment benefits has grown as well.

- Data on the number of unemployed exhausting their benefits are now available for January and February of 1991. In these two months, nearly half a million unemployed workers — 485,000 people — exhausted their unemployment insurance benefits.

- The total number of exhaustees in these two months was 30 percent greater than the number of exhaustees in January and February of 1990.

It is likely, moreover, that a majority of the jobless workers now exhausting their unemployment benefits will not be able to find work in the near future. A study prepared for the Labor Department found a substantial majority of the unemployed who had exhausted their unemployment insurance benefits did not have a job 10 weeks after their benefits ended.

Reemployment prospects for people exhausting their benefits are likely to be even worse today, according to Walter Corson, co-author of the study. In recent Congressional testimony, Corson noted that "60 percent [of the workers in the study who had exhausted their unemployment insurance benefits] were still jobless 10 weeks after receiving their final UI payment....Since the study examined UI recipients during a nonrecessionary period (1988), these numbers are likely to be higher in the current recessionary period."[21]

Consequences of the Weakening of the Unemployment Protection

One consequence of the deterioration of unemployment insurance protection is that the unemployment insurance program will provide less "countercyclical" stimulus than during past recessions. As a countercyclical policy, unemployment benefits help sustain demand for goods and services at a time when demand in the private sector is shrinking. By sustaining demand, these benefits help ameliorate shocks to the economy caused by rising unemployment and can help accelerate the pace of the recovery as well.

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[21] Walter Corson, Testimony before the Subcommittee on Human Resources of the House Ways and Means Committee, February 26, 1991.

The lessening of the countercyclical effect of the unemployment insurance program has been substantial. Burtless has reported that: "In comparison with the level of countercyclical stimulus available during the 1960s and the 1970s, the stimulus provided by the current system has dropped by at least a third."[22]

This lack of stimulus is most significant for local areas with particularly high unemployment rates. In these areas, the high level of unemployment is likely to have resulted in a substantial decline in the demand for goods and services. With unemployment benefits failing to sustain demand as much as in the past, it is more likely that unemployment in one sector of a local economy will lead to reductions in demand for products in other sectors. As a result, unemployment may spread through more of the local economy.

A second consequence of the deterioration of unemployment protection is more obvious: unemployed workers and their families are more likely to suffer economically. For some previously middle class workers, this may mean not just a decline in their standard of living, but also that they sink into poverty.

Various studies have shown that unemployed people who exhaust their unemployment benefits or never qualify for these benefits are much more likely to be poor than jobless individuals who do receive benefits. The studies also indicate that the decline in unemployment protection over the past decade has resulted in higher poverty rates.

One recent study was conducted by the Congressional Budget Office. CBO examined the poverty status of individuals who had exhausted their unemployment benefits but remained unemployed three months later. The CBO study compared this group's poverty rate during the period they were receiving benefits to their poverty rate in the period after they had exhausted their benefits. The study found their monthly poverty rate was twice as high after they exhausted their benefits.[23]

Another analysis, by Vroman of the Urban Institute, examined how the cuts in the program in the early 1980s had affected the program's ability to prevent jobless workers from falling into poverty. Vroman concluded: "It is clear that the long-term unemployed experience very high poverty rates and that [unemployment

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[22] Gary Burtless, *op. cit.*, Testimony on February 6, 1991.

[23] Ralph E. Smith and Bruce Vavrichek, the Congressional Budget Office, *Family Incomes of Unemployment Insurance Recipients and the Implications for Extending Benefits*, February 1990. The CBO study examined "long-term" unemployment insurance recipients, defined as those who received benefits for at least four months.

Unemployment Insurance and Other Parts of the Safety Net

When people experiencing a spell of unemployment do not receive unemployment insurance — the component of the safety net supposedly designed to meet their needs — they may need to rely on other parts of the safety net. But other key parts of the safety net are themselves much weaker than in the past.

Some very low income parents with children who have lost their jobs or had their work hours cut back may apply for AFDC benefits. AFDC benefit levels and income limits are much lower now, however, than in previous recessions. In the typical (or median) state, the AFDC benefit provided to a family of three with no other income has fallen 42 percent since 1970, after adjusting for inflation. Some states are considering further cuts this year. In addition, as recently as 1980, a family of three with part-time earnings that equal 75 percent of the poverty line could qualify for AFDC in 42 states. Today, such a family is eligible in only nine states. This means some families whose work-hours are cut back sharply, or in which the principal wage-earner is laid off, can no longer qualify for AFDC assistance.

For unemployed people who do not have children, little or no cash assistance may be available if they fail to receive unemployment insurance. Many jurisdictions lack any type of general assistance program or limit such a program to people who are elderly or have disabilities. Some of those states and counties that do have general assistance programs have cut these programs back in recent years or are considering significant cutbacks this year.

A number of the unemployed may also fail to meet the stringent assets limits for means-tested programs. For example, families are ineligible for AFDC if their countable assets exceed $1,000.[23] To receive food stamps, a household's countable assets must be less than $2,000. In both AFDC and food stamps, most of the asset limits have not been adjusted for inflation for a number of years, making the limits significantly stricter than in previous recessions.

Moreover, the unemployment insurance program is, as its name implies, supposed to function as an insurance program that protects most moderate and middle-income people from being driven into poverty — and having to go on welfare — if they lose their jobs. The program does not meet this goal as well today as it has in the past. This appears to be one reason that despite the cutbacks in welfare programs, AFDC and food stamp rolls have grown more over the past year than would otherwise be expected. Recent studies in several states have found that a substantial proportion of new AFDC families are headed by individuals who have recently lost their jobs.

Finally, not only do government programs provide less cash assistance than in the past to cushion the blow of unemployment, the government also provides less aid in helping jobless workers obtain training for or placement into new jobs. Over the past decade (i.e., from fiscal year 1981 to fiscal year 1991), federal appropriations for employment and training programs have fallen by more than half — 56 percent — after adjusting for inflation.

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[23] The definition of "countable" assets varies under different means-tested programs. Under AFDC, countable assets includes nearly all liquid assets and some non-liquid assets, such as any equity value above $1,500 in an automobile or other vehicle. In the food stamp program, most liquid assets are counted, along with such non-liquid assets as the extent to which the market value of a car exceeds $4,500. (Since the $4,500 vehicle limit in the food stamp program applies to market rather than equity value, some workers who bought a modest car on installments within the past couple of years — but then lost their jobs — may be ineligible for food stamps even if their equity in the car is relatively small.)

insurance] benefits have a substantial poverty-reducing impact....In the absence of some alternative new program, and given the particularly large amount of long-term unemployment experienced in the 1980s, it seems to be clear that benefit cutbacks have contributed to economic hardship and to occurrences of poverty in the 1980s."[24]

Other studies have found that unemployed people who do not qualify for benefits to begin with are more likely to be poor than those who do obtain benefits. Poverty researchers Sheldon Danziger and Peter Gottschalk examined the circumstances of workers who were employed at low-wage jobs but then lost their jobs and joined the ranks of the unemployed. They found most unemployed household heads who had previously held low-wage jobs did not receive unemployment insurance benefits, and that the proportion receiving benefits had decreased substantially between 1976 and 1984. They also found jobless workers and their families received little in the way of cash assistance from other programs and were "at a high risk of poverty."[25]

In short, the elevated levels of unemployment resulting from the current recession are likely to persist for an extended period of time. As a result, the hardships caused by the sharp contractions in the unemployment insurance system — including higher poverty rates — are likely to endure for several years. These hardships will be more severe if the forecasts for a moderate recession ending by mid-year prove too optimistic.

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[24] Wayne Vroman, Testimony before the House Committee on Government Operations, Subcommittee on Employment and Housing, May 22, 1986.

[25] Sheldon Danziger and Peter Gottschalk, "Unemployment Insurance and the Safety Net for the Unemployed," Prepared for Conference on Unemployment Compensation, University of Wisconsin-Madison, February 1986.

IV. Unemployment Insurance Reforms

The rise in the number of unemployed workers during the recession has focused greater attention on the weak protection the unemployment insurance system provides and on the effect of policy changes over the past decade in contributing to this state of affairs. As a result, interest in reforming the unemployment insurance program is now growing.

Government Cutbacks in the 1980s

A number of policy changes made at both federal and state levels in the early 1980s have made it more difficult for jobless workers to qualify for unemployment insurance benefits. One of the most important changes was made in 1981, when the federal threshold used to determine when a state qualifies for extended benefits was raised substantially. As a result, unemployment must reach a much higher level (than under the pre-1981 law) before states can provide extended benefits.

In addition, changes in state laws contributed to declines in eligibility for *regular* unemployment insurance benefits. The study conducted for the Labor Department by Mathematica Policy Research, Inc. identified a number of changes in state policy that account for part of the decline.[26] For example, some states

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[26] Walter Corson and Walter Nicholson, *An Examination of Declining UI Claims During the 1980s*, prepared by Mathematica Policy Research, Inc. for the U.S. Department of Labor.

This study also identified a number of federal policy changes, in addition to the changes in the extended benefits program, that made the unemployment insurance program more restrictive in

(continued...)

increased the number of weeks that employees people must work before they can qualify for unemployment insurance benefits if they lose their jobs.

The new federal budget procedures enacted last fall also play a role. While they do not directly affect eligibility for unemployment insurance, they make it more difficult for Congress either to reform the unemployment insurance system or to provide supplemental benefits during a recession.

Federal Reforms

The federal government could reform and strengthen the faltering unemployment insurance system in at least three ways: it could overhaul the benefit program for the long-term unemployed; it could establish federal standards designed to increase the share of the unemployed receiving benefits under the regular state unemployment insurance programs; and it could modify the method of financing unemployment insurance administrative costs. Other types of reforms in the unemployment insurance system, such as efforts to link the system more closely to reemployment efforts, also warrant consideration but are beyond the scope of this report.

Benefits to the Long-term Unemployed

Options are now before Congress to restore the strength of the extended benefits program for the long-term unemployed. Since the current mechanism, or "trigger," for determining whether a state qualifies to pay extended benefits does not accurately reflect the depth of unemployment in the state, changes in the trigger mechanism are under consideration.

Restoring the strength of the extended benefits program could be of substantial assistance to jobless workers in states with high unemployment. One shortcoming with this approach, however, is that it might not provide prompt relief during the current recession. A change in federal law making it easier for states to pay extended benefits would not take effect until states made corresponding changes in their own laws. In some states, such changes might not be made for a number of months, if at all.

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[26](...continued)

the 1980s. These included the full taxation of unemployment insurance benefits; mandatory reductions in unemployment insurance benefits to claimants who also receive a pension or social security; changes in special federal unemployment insurance programs such as the one covering ex-service members; and tougher federal policies on loans to state unemployment insurance trust funds.

This suggests an alternative way of providing relief should also be considered: the federal government could enact a temporary program of supplemental unemployment benefits that would be fully federally funded and be provided to long-term unemployed workers who have exhausted their regular (or extended) benefits and are still looking for work. This program would provide immediate relief to the long-term unemployed.

Enacting a temporary program along these lines would not be an unusual step. Precisely such a program, called the "Federal Supplemental Compensation" program, was in place from the fall of 1982 to the spring of 1985. The program remained in effect until well after the recovery of the 1980s began because unemployment rates remained high in many areas of the country. Similar programs were enacted in other recent recessions.

In fact, because of the problems with the current extended benefits program, there has also been discussion of replacing the extended benefits program with a *permanent* federal supplemental compensation program. Under such an approach, the current extended benefits program, in which funding is split evenly between the state and federal governments, would be replaced with a program that is fully-federally financed (and in which additional weeks of benefits are provided in states with high unemployment levels). This would provide fiscal relief to states with troubled economies and substantial long-term unemployment.

Standards to Increase State Protection

As noted in Chapter II, the wide variation among states in the share of the unemployed receiving unemployment benefits is related in part to the wide variations in state eligibility standards. Because there are so many states in which only a small minority of the unemployed receive benefits, the extent of these variations is cause for concern.

Many Members of Congress remain reluctant to alter the basic federal-state structure of the unemployment insurance system. Nevertheless, there is growing interest in having the federal government strengthen the standards state programs must meet. One such approach would be to bring greater consistency to the manner in which states determine whether applicants for unemployment benefits meet the requirements for prior earnings and employment. For example, there could be federal standards related to how the "base period" is defined. (The amount an unemployed worker has earned in the base period typically determines the duration and level of benefits the worker may receive.)

As noted in Chapter II, in the large majority of states, the base period is the first four of the last five completed calendar quarters before a worker files for unemployment benefits. Thus, a worker's "base period earnings" do not include earnings from employment in either the calendar quarter in which the worker files for unemployment benefits or the quarter before that. For workers laid off towards the end of a calendar quarter, nearly six months of work experience might be discounted. This approach severely restricts benefits for workers whose work experience is concentrated in recent months.

By contrast, some states — including Massachusetts, Michigan, Nebraska, New York, Ohio, Vermont, and Washington — do include the most recent months of work history in determining eligibility.[27] The procedures used in these states increase chances that low wage workers who have just lost their jobs, but who may not have been employed a year ago, will [redacted] have sufficient earnings and employment in the base period to receive unemployment benefits.[28]

A second possible reform would be to place some modest limitations on state discretion in disqualifying unemployment insurance applicants. As also noted in Chapter II, some states appear to take an especially harsh stance in their judgments to deny benefits to certain applicants. For example, Texas and Florida are twice as likely as the rest of the nation to reject applicants on the basis that they quit their job voluntarily or were fired for misconduct.

In addition, in most states, workers who leave their jobs voluntarily are typically disqualified from receiving benefits for the entire duration of their unemployment.[29] This can be true even if the employee had to leave work for reasons largely beyond his or her control and even if the employee had many years of prior work experience, during which unemployment insurance taxes were paid based on the employees wages. For example, if an employee is forced to leave a job because his or her child care arrangements have fallen through, the employee is often ineligible for unemployment insurance for the full duration of the unemployment period. Furthermore, in about half the states, a worker who

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[27] For example, in Washington and Ohio, if an applicant for benefits does not qualify based on earnings and employment in the first four of the last five completed quarters, the state determines if the applicant would be eligible based on the most recent four completed quarters. In another example, in New York, the base period is the 52 weeks preceding the filing of the application for benefits.

[28] This approach would not establish federal standards on the amount or duration of earnings a worker must have during the base period to qualify for unemployment benefits.

[29] Wayne Vroman, Testimony before the Subcommittee on Human Resources of the Committee on Ways and Means, March 22, 1991.

leaves a job because of a serious illness is generally ineligible for unemployment benefits, even if the worker recovers and starts looking for work but cannot find employment.

While it is sensible to treat workers who lose their jobs *involuntarily* differently from many of those leaving their jobs voluntarily, it is not clear that voluntary job leavers who have a substantial employment record and who left their jobs for reasons largely outside their control should be excluded from benefits altogether. Instead, these voluntarily job leavers might be made eligible for benefits or required to wait a certain period of time before they become eligible for assistance.

Improve Administrative Funding Mechanism

Another weakness of the current unemployment insurance system has become evident during the current recession. This is the inadequacy of the system for financing the program's administrative costs. While states pay the full cost of regular unemployment benefits, the federal government pays the cost of administering the program through state unemployment insurance offices.

The amount of administrative funding for the unemployment insurance system is determined by the federal government at the beginning of the fiscal year, as part of the regular appropriations process. A specific amount of funding is appropriated for administrative costs, based on estimates of the unemployment rate — and hence the number of unemployment insurance claims — during the coming year. If the unemployment rate and the number of unemployment insurance claims turn out higher than anticipated, administrative funding levels will be too low. Additional funding is then necessary to meet the larger-than-expected demand for services.

Such a need for supplemental funding has arisen frequently. In 10 of the last 18 years, the Department of Labor has requested supplemental funding for this purpose.[30]

During fiscal year 1991, the rise in unemployment has been much more rapid than was earlier anticipated. As a result, the administrative funding problem has been especially severe in recent months, with problems reported in at least 18 states.[31] In February 1991, Raymond Scheppach, executive director of the

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[30] Gary Burtless, Testimony before the Joint Economic Committee, January 4, 1991.

[31] Albert B. Crenshaw, "Jobless Safety Net Falls Short," *The Washington Post*, February 9, 1991. The source for the list was the Interstate Conference of Employment Security Agencies.

National Governors' Association, testified that in Michigan, "jobless workers must wait *at least* one month to receive their benefit check. On average, the wait is closer to six to eight weeks."[32]

Congress approved legislation to close the administrative funding gap in late March 1991. Nevertheless, the new federal budget procedures enacted last fall may have contributed to delay in closing the gap. It is likely the procedures will create further problems in future years.[33] For example, the recent Congressional action came too late for those unemployed workers who filed unemployment insurance claims earlier in the fiscal year and encountered long lines, extensive waits before receiving any benefits, and other administrative snafus. To ensure that the unemployment insurance system has adequate administrative resources to respond on a timely basis when unemployment rises, the system's administrative financing mechanism needs reform.

Financing Unemployment Insurance Reforms

To finance unemployment insurance reforms, the Congress could consider raising the wage base on which the unemployment insurance tax is levied. Currently, employers pay a federal tax equal to 0.8 percent of the first $7,000 of each worker's wages. This federal "taxable wage base" of $7,000 has been raised only three times since it was initially set at $3,000 in 1935 and it now covers a far smaller proportion of employee compensation than it did when the unemployment insurance program was established more than five decades ago. For example, in 1940, the taxable wage base encompassed 98 percent of the total wages paid to workers whose employers were required to pay into the unemployment insurance system. By 1988, the taxable wage base covered just 32 percent of the total wages paid by such employers.

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[32] Raymond C. Scheppach, Executive Director of the National Governors' Association, Testimony before the Subcommittee on Human Resources of the Committee on Ways and Means, February 6, 1991.

[33] The new budget procedures enacted last fall set overall spending ceilings for each of the next five fiscal years for non-entitlement programs. While unemployment insurance *benefits* are an entitlement, the *administrative funds* are not.

In the current fiscal year, the President and Congress agreed to designate the provision of additional unemployment insurance administrative funds as an "emergency," thereby waiving the spending ceilings. Such an agreement might be more difficult to reach, however, in a future fiscal year. In such an event, supplemental funds for unemployment offices could be provided only if funds already appropriated for other programs were cancelled.

Since the administrative funds come from a trust fund into which the necessary tax revenues have already been deposited (this trust fund now contains more than $2 billion), and since the administrative funds are needed to operate a program under which people have a legal entitlement to benefits, there is a strong case for modifying the current budget procedures for handling these funds.

In comparison, Social Security taxes are paid on the first $53,400 in earnings. The Social Security tax base is more than seven times higher than the unemployment insurance tax base. When the unemployment insurance and Social Security programs were created, however, their taxable wage bases were set at the same level.

The current unemployment insurance tax structure, with its low taxable wage base, creates serious inequities. An employer pays precisely the same amount of federal unemployment insurance tax for an employee earning $7,000 as for an employee earning $50,000 or $100,000. Yet the worker paid at the higher wage level gets larger unemployment benefits if he or she loses a job. This tax and benefit structure effectively discriminates against low wage workers with earnings at or near the taxable wage base.[34]

If the wage base were raised sufficiently, it could be coupled with a substantial reduction in the unemployment insurance tax *rate* that employers pay — and still produce an increase in revenues sufficient to finance the costs of extending unemployment protection to a larger share of jobless workers. Such an approach is one of the central factors of new legislation introduced in March 1991.

Current Legislative Activity

Last month, Representative Thomas Downey of New York — acting chair of the Human Resources Subcommittee of the House Committee on Ways and Means, the Subcommittee with jurisdiction over the unemployment insurance program — introduced legislation to alter unemployment insurance program.[35] The legislation is comprehensive in nature and addresses most reform areas discussed in this chapter.[36]

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[34] State unemployment insurance benefits, as well as the state share of extended benefits, are financed through state taxes. Currently, the federal taxable wage base sets a floor below which the state base may not drop. In the typical state, the taxable wage base equaled $8,000 in 1990, a level just slightly above the federal base.

[35] The legislation is co-sponsored by Representatives Harold Ford, Sander Levin, Donald Pease, and Robert Matsui.

[36] Some reforms discussed in the previous section, such as a federal mandate that states consider a worker's most recent work experience in determining unemployment insurance eligibility, are not included in the Downey bill. At the same time, the legislation would make changes in the unemployment insurance system that are not discussed above and that lie beyond the scope of this paper. Such changes would affect the duration of regular benefits for former members of the armed forces, establish a new job search program for certain unemployment insurance claimants, and provide incentives for states to run surpluses in their state unemployment insurance funds.

Financing Immediate Reforms

Raising the federal taxable wage base for unemployment insurance — and cutting the tax rate — represents a sound approach for financing long-term reforms in the unemployment insurance system. It is not, however, a feasible method for financing reforms designed to provide immediate relief to the large numbers of jobless workers exhausting their benefits as a result of the current recession.

An increase in the taxable wage base could fully offset the costs of unemployment insurance reforms in fiscal years from FY 1992 onward. But the changes in the taxable wage base can not be implemented in time to offset the costs of supplemental unemployment benefits for long-term jobless workers during the remaining months of FY 1991.

As a result, it may prove advisable for Congress and the President to address these immediate needs by designating as "emergency legislation" a measure to provide supplemental unemployment benefits for a temporary period while unemployment remains high. If Congress and the President designate a piece of legislation as an emergency measure, restrictions of the new budget law are waived.

There is a strong case *against* using the emergency provisions of the new budget law to make statutory changes that would result in significant costs even after unemployment levels are back to normal. But providing supplemental unemployment benefits for a temporary period results in costs that will diminish sharply or disappear as the unemployment rate returns to normal. Using the emergency designation to provide supplemental unemployment benefits during an economic downturn thus should be appropriate.

Another reason use of the emergency designation would be appropriate in these circumstances is that the federal government has already set aside a large amount of funds for the unemployment insurance program. As with the Social Security system, the unemployment insurance system is not funded out of general revenues, but has specific taxes that are dedicated to funding the program and are deposited into trust funds to be used solely for this purpose.

According to Administration projections, the federal trust fund for the extended unemployment benefits program will have a surplus of $8.4 billion at the close of fiscal year 1991. The individual trust fund accounts for the various states will have a combined surplus of $34 billion. The federal trust fund for administering the unemployment insurance system will have a surplus of $2.5 billion.

Under the new budget law, however, the provision of supplemental unemployment benefits during a recession (and other unemployment insurance reforms) cannot simply be paid for from these surpluses. Any changes in the unemployment insurance program that would increase its cost must be financed either through offsetting program cuts or through an offsetting tax increase, unless the emergency designation is used.

It bears noting that in March 1991, Congress and the President agreed to close the FY 1991 gap in administrative funding for the unemployment insurance program through a supplemental appropriation designated as emergency legislation.

- The bill would replace the extended benefits program with a permanent supplemental compensation program fully financed by the federal government. States with high unemployment levels would qualify more readily for the proposed supplemental compensation program than they do for the current extended benefits program.

- The bill would limit to 10 weeks the period for which most people who leave their jobs voluntarily may be disqualified from receiving unemployment benefits. States would retain the authority to disqualify certain other groups of applicants, such as those fired for misconduct, for an indefinite period.

- The legislation would also change the method of administrative financing for the program. New budgetary procedures would be established to insure that necessary administrative funds would be available to states during periods when unemployment rises more rapidly than had been expected.

- The legislation would be financed by raising the unemployment insurance taxable wage base to the same level as the Social Security taxable wage base, while cutting the unemployment insurance tax rate. Over time, the tax rate would be reduced from 0.8 percent of taxable wages to 0.3 percent of taxable wages.[37]

Decisions at the State Level

In the coming year, the levels of unemployment insurance protection provided to jobless workers will also be affected by decisions made at the state level. Unfortunately, some states may consider cutting unemployment benefits further, thereby making the program weaker than it already is.

That states would consider cutting unemployment benefits during a recession may seem surprising. This, however, is exactly what happened in a number of states during the high unemployment years of the early 1980s. During recessions, state expenditures for unemployment benefits increase, while state revenues from the unemployment insurance tax usually decline. In the early 1980s, this led to large deficits in the unemployment insurance trust funds of some states. To combat the deficits, a number of states cut their programs.

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[37] The federal and state taxable wage bases would be "decoupled." That is, the federal taxable wage base would no longer set a floor under which the state base cannot drop.

Two developments may prevent a recurrence of cutbacks in the months ahead. Most state trust funds are in better shape today than in the early 1980s. In addition, the sharp erosion of unemployment insurance protection over the past decade may make states reluctant to cut the program even further.

In fact, because unemployment insurance protection has eroded so sharply, a case can be made that various states should consider moving in the opposite direction and strengthening their programs. States could examine their eligibility rules and administrative procedures to see if they have grown too strict and if some selected changes might be appropriate, particularly in light of the high levels of unemployment likely to persist for the next few years.

For example, states could themselves consider redefining the "base periods" used to determine a worker's eligibility for unemployment benefits and the amount and duration of the benefits. States could redefine the base period so that it covered earnings and employment in recent months. Such state action would be especially appropriate if federal standards are not established in this area.

States might also reexamine their formulas for determining benefit duration. As noted in Chapter II, Texas is an example of a state with a restrictive formula; it limits the unemployment benefits it pays to no more than 27 percent of an unemployed worker's total earnings in the base year. That formula could be modified so that workers with low earnings during the base period received benefits for a longer duration. Eight states provide 26 weeks of benefits to all eligible workers, while states such as California cut off unemployment benefits when they reach 50 percent of an unemployed worker's total earnings in the base year, rather than 27 percent.

States could also review their administrative practices to make sure their unemployment insurance program is administered fairly — and that unemployed workers who are otherwise eligible are not discouraged from applying for benefits or disqualified unnecessarily. As noted earlier in this report, a comparison of the 11 largest states indicates that Florida and Texas are more than twice as likely to disqualify an applicant for voluntarily quitting a job or a misconduct discharge as are other large states. These higher disqualification rates appear to reflect differences in state administration of the unemployment program in Florida and Texas. Unemployment insurance offices in those states may be more predisposed to making a judgment that an applicant or beneficiary is undeserving of benefits. High denial rates can also deter eligible jobless workers from filing claims for unemployment benefits.

Conclusion

While only part of the decline in unemployment protection is due to changes in government policies, these changes have had a substantial effect. They have made the unemployment insurance system considerably weaker than it would otherwise be. The inadequacies of the system are becoming increasingly evident during the current recession, as the level of hardship rises among jobless workers and their families. The time for reform of the unemployment insurance system is at hand.

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